

Markets & Stocks

2ND UPDATE: GM Shares Surge As Kerkorian Woos Renault-Nissan

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SAN FRANCISCO (Dow Jones) - Billionaire investor Kirk Kerkorian, in a move that could put another proven turnaround specialist closer to General Motors' top brass, fired off a letter to GM CEO Rick Wagoner Friday urging the struggling Detroit automaker to join the partnership forged between France's Renault and Japan's Nissan.

The news initially triggered a double-digit rally in the stock, but shares backed off intraday highs, rising \$2.49, or 9.1%, at \$29.93 in midday trade.

The deal could "realize substantial synergies and cost savings and thereby greatly benefit the company and enhance shareholder value," Kerkorian said through his Tracinda investment company. "Accordingly, we urge the board of directors to form a committee to immediately and fully explore this opportunity together with management."

Tracinda, represented on the board by Kerkorian's top advisor Jerry York, owns 9.9% of GM's shares.

"A deal like this could make a lot sense, and it could turn out to be a good thing for General Motors," said Patrick Welch, analyst at Wall Street Strategies. "I think the companies are in a position to make it happen."

GM said in a short statement that the request will be "taken under advisement by the board" but that it "has received no offer or proposal from Renault/ Nissan" about a potential linkage.

Renault declined to comment on the letter.

Kerkorian has been relatively quiet since maneuvering York into the GM boardroom. After the Detroit auto show in January, York, who played a big role in turning around Chrysler in the '80s, cited Carlos Ghosn and Nissan as an example when he publicly urged General Motors to be more forthcoming with its financial targets.

GM stopped providing earnings estimates last year while on its way to a \$10.6 billion loss.

Merrill Lynch analyst John Murphy reiterated his buy rating on GM after the news, but downplayed the chances of a deal being struck.

"If this was really happening, we would have expected to hear about this first from Mr. Ghosn," he said in a note, adding that the mere mention of a possible alliance is a confirmation of "significant" value in GM.

Still, if past performance is any indication, there's a good chance Kerkorian gets his way.

Beneficial for all?

One sell-side analyst who covers Renault said Ghosn has always been open to an alliance in North America, since Renault and 44%-controlled Nissan (NSANY) are strong in Europe and Asia but not in North America.

The analyst, who spoke on condition of anonymity, said the alliance with GM would likely focus on joint development, and not cross-selling. With environmental issues looming, automakers will face growing research-and-development costs to make less polluting automobiles, and an alliance could help spread the costs and the risks between the firms.

In February, Ghosn, who is credited with turning around Nissan and Michelin, set a goal of turning the French automaker into Europe's most profitable mass producer by 2009.

David Kudla, Mainstay Capital's chief investment strategist who manages savings for about 1,000 GM retirees and employees in Grand Blanc, Mich., said a partnership would strengthen the competitive position for all three companies.

"GM could potentially benefit from [Ghosn] depending on the level of his future involvement in GM," he said. "Renault and Nissan would significantly benefit from GM's global infrastructure, especially its dealer network in the U.S. and other foreign markets."

Forging new international ties, however, is not without daunting challenges.

Anything but stellar

GM's past linkages with overseas carmakers have produced anything but stellar results. GM's takeover of European marques Opel, Saab and Vauxhall have seen sales slip, prompting production rollbacks, plant closures and labor strife.

Earlier this month, Suzuki said it would end its 25-year joint venture with GM, a relationship that has been slowly unraveling as GM reduced its holding in the company to just 3% earlier this year.

Last year, GM sold its entire 20% stake in Fuji Heavy Industries, the parent of Subaru. GM has also sold off its 7.9% stake in Isuzu Motors, Ltd.

GM's recent pullback from overseas partnerships reflects more its need to raise cash to support its flagging operations at home than the realities of the global car industry. While GM and Ford (F), along with their suppliers, increasingly rely on foreign-made components, Japanese carmakers have been building up North American assembly lines.

"GM has been in bed with Fiat, DaimlerChrysler (DCX) has with Mitsubishi, these alliances are not necessarily smooth sailing. As you add more parties it can get more complicated," said Michael Tyndall, an analyst at Nomura Securities in London.

But he said Nissan and Renault's alliance is an example that they can pay off.

"There are great economies of scale from doing all the stuff behind the scenes as one," he said, from gaining leverage with suppliers to selling engines or gearboxes to each other.

If an alliance does come about, he doesn't imagine Renault cars being sold via GM dealerships.

"They're not American cars," he said.

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